



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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December 28, 2012

TO: Supervisor Mark Ridley-Thomas, Chairman  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller *Wendy L. Watanabe*

SUBJECT: **COUNSELING & RESEARCH ASSOCIATES, INC., DBA MASADA  
HOMES - A FOSTER FAMILY AGENCY AND GROUP HOME FOSTER  
CARE CONTRACT PROVIDER - FISCAL REVIEW**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of Counseling & Research Associates, Inc., DBA Masada Homes (Masada or Agency), from July 1, 2009 through June 30, 2010. DCFS contracts with Masada to provide Foster Family Agency (FFA) services to recruit, certify, train, and support foster family homes. Masada is also licensed to operate two group homes (GH), each with a resident capacity of six children. Masada's offices and GHs are located in the Second and Fourth Supervisorial Districts, and in San Bernardino County.

At the time of our review, Masada had 145 children placed by Los Angeles County in 56 certified foster homes. DCFS paid the Agency between \$1,589 and \$1,865 per child per month, for a total of \$868,413. Masada paid \$356,049 (41%) directly to the foster parents, which exceeds the State's minimum requirement of 40%.

In addition, DCFS and the Probation Department contract with Masada to care for foster children placed in the Agency's group homes. DCFS paid Masada \$7,795 per child per month, based on a rate determined by the California Department of Social Services, for a total of \$878,264 in GH foster care funds in Fiscal Year 2009-10.

The issuance of our report to your Board was delayed in part by changes in federal and State regulations regarding possible repayment of questioned costs from fiscal audits. To enable Masada to begin taking corrective action as soon as possible, we discussed

the findings and recommendations from our review with Agency management on June 11, 2011.

### **Summary of Findings**

We identified \$16,935 in unallowable expenditures, and \$12,044 in unsupported/inadequately supported expenditures. In addition, DCFS and the Agency need to work together to resolve some potential overpayments. DCFS should recover any verified overpayments.

Masada also needs to strengthen its accounting procedures and controls over bank reconciliations, petty cash, fixed assets, and needs to comply with insurance requirements. The Agency also needs to submit its Semi-Annual Expenditure Reports, cost allocation plan, and audited financial statement to DCFS, as required by the FFA and GH contracts. Details of our findings are discussed in Attachment I.

We have recommended that DCFS resolve the questioned costs, and collect any disallowed amounts. DCFS should also ensure that Masada management takes action to address the recommendations in the report, and monitor to ensure that the actions result in permanent changes.

### **Review of Report**

We discussed our report with Masada management and DCFS on March 28, 2012. The interval from March 28, 2012 to the issuance of this report includes a mandatory 90-day waiting period to allow the Agency to appeal the findings. The Agency's response, which is incorporated into DCFS' Fiscal Corrective Action Plan (Attachment II) indicates the Agency's general agreement with our findings and recommendations, and that they will repay the \$28,979 (\$16,935 + \$12,044) in questioned costs.

This audit is not intended to be, and does not constitute, the discovery or identification of an overpayment for purposes of the federal Improper Payments Act, related California State laws, including but not necessarily limited to Welfare and Institutions Code sections 11466.23, 11466.235, 11466.24, etc., nor State regulations intended to implement either the federal Improper Payments Act or related provisions in State law. This audit is intended solely to assist DCFS in managing its contractual relationships. Consequently, this report will be forwarded to DCFS, in order that it might take further action, as it deems appropriate, based on its contents. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

We thank Masada's management and staff for their cooperation during our review. Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MWM

Attachments

c: William T Fujioka, Chief Executive Officer  
Philip L. Browning, Director, DCFS  
Jerry E. Powers, Chief Probation Officer  
Reaver E. Bingham, Deputy Chief, Probation Department  
George Igi, Executive Director, Masada Homes  
Board of Directors, Masada Homes  
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services  
Commission for Children and Families  
Public Information Office  
Audit Committee

**Counseling & Research Associates, Inc., DBA Masada Homes**  
**Foster Family Agency and Group Home Contract Provider**  
**Fiscal Review**

**REVIEW OF EXPENDITURES/REVENUES**

Our review of Counseling & Research Associates, Inc., DBA as Masada Homes (Masada or Agency), identified \$16,935 in unallowable expenditures, and \$12,044 in unsupported/inadequately supported expenditures. In addition, the Department of Children and Family Services (DCFS) and the Agency need to work together to resolve some potential overpayments. Details of these expenditures/overpayments are discussed below.

**Applicable Regulations and Guidelines**

Masada is required to operate its Foster Family Agency (FFA) and group homes (GH) in accordance with the following federal, State, and County regulations and guidelines:

- FFA and GH Contract, including the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

**Unallowable Expenditures**

Masada incurred \$16,935 in unallowable expenditures:

- \$11,378 in interest and penalties to the California Department of Social Services, American Express, Office Depot, Sam's Club, Wells Fargo, and Pitney Bowes. Circular A-122 Sections 16 and 23 indicate that penalties and interest are unallowable.
- \$4,440 for payments on an unused piece of real property. Masada is paying the mortgage on a property that has not been used since May 2008. Circular A-122 Section 20 states that the costs of unused facilities are unallowable when the facility has not been used after a reasonable period of time, generally not to exceed one year.
- \$1,117 for mileage and medical payments charged to the FFA Program that should have been charged to the Agency's Mental Health Program.

**Unsupported/Inadequately Supported Expenditures**

A-C Handbook Section A.3.2 and B.2.4 states that all expenditures shall be supported by original vouchers, invoices, receipts, or other supporting documents, and that unsupported expenditures will be disallowed upon audit. We identified \$12,044 in unsupported/inadequately supported expenditures as follows:

- \$9,867 for vehicle gasoline expenses. The Agency did not provide vehicle mileage logs documenting that the expenses were program-related.
- \$1,260 in movie tickets. The Agency did not provide sufficient documentation that the movie tickets benefited placed children.
- \$917 in unsupported expenditures for clothing, petty cash reimbursements, supplies, food, and vehicle maintenance expenses. The Agency provided credit card statements and cancelled checks, but did not provide the original itemized invoices or receipts.

**Recommendations**

1. DCFS management resolve the \$28,979 (\$16,935 + \$12,044) in questioned costs, and collect any disallowed amounts.

**Masada management:**

2. Ensure that foster care monies are used for allowable expenditures.
3. Maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.

**Potential DCFS Overpayments**

DCFS records show some potential overpayments made to the Agency. DCFS and Masada should work together to resolve the overpayments, and DCFS should collect any verified amounts. Masada management should also ensure that any future payment discrepancies are immediately reported to DCFS, and any excess amounts are repaid promptly.

**Recommendations**

4. DCFS management work with Masada to resolve the overpayments, and collect any verified amounts.

5. **Masada management ensure that any future payment discrepancies are immediately reported to DCFS, and any excess amounts are repaid promptly.**

### **CONTRACT COMPLIANCE AND INTERNAL CONTROLS**

We noted several contract compliance issues and internal control weaknesses. DCFS should ensure that Masada management takes action to address each of the contract compliance and internal control recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

### **Accounting Procedures**

We noted that the Agency misclassified three (8%) of 39 general ledger expenditures reviewed. For example, the Agency posted one item to the FFA mileage reimbursement account. However, based on the client names listed on the mileage reimbursement forms, the Agency should have posted the expense to the Mental Health Program. We questioned these payments as part of our Unallowable Expenditures. Masada management should ensure that all expenditures are posted to the appropriate cost centers and accounts.

### **Recommendation**

6. **Masada management ensure that all expenditures are posted to the appropriate cost centers and accounts.**

### **Bank Reconciliations**

A-C Handbook Section B.1.4 states that bank reconciliations should be prepared within 30 days of the bank statement date, and be reviewed by management for appropriateness and accuracy. Both the preparer and reviewer should sign and date the bank reconciliations.

We reviewed the Agency's monthly bank reconciliations, and noted that the preparer and reviewer did not date ten (83%) of the 12 bank reconciliations reviewed. As a result, we could not determine if the reconciliations were prepared and reviewed within 30 days of the bank statement date as required.

### **Recommendation**

7. **Masada management prepare monthly bank reconciliations within 30 days of the bank statement date, and ensure that the reconciliations are signed and dated by the preparer and reviewer.**

**Petty Cash**

A-C Handbook Section B.2.3 allows agencies to have a petty cash fund up to \$500 to pay for small incidental expenses. Petty cash funds over \$500 must be approved in writing by DCFS.

We noted that Masada maintains a \$700 petty cash fund, but does not have written approval from DCFS for the higher amount. While the Agency may have a legitimate business need for a larger petty cash fund, Masada must provide DCFS with justification for the higher limit, and obtain written approval from the Department.

**Recommendation**

8. **Masada management provide DCFS with justification for a higher petty cash fund limit, and obtain written approval from DCFS to maintain a petty cash balance greater than \$500.**

**Fixed Asset Listing**

Masada's fixed asset list does not include the source(s) of funding used to purchase the asset, nor does the Agency tag its fixed assets, or inventory its assets at least once each year, as required by A-C Handbook Section B.4.2.

**Recommendation**

9. **Masada management ensure that their fixed assets list includes the source(s) of funding used to purchase the asset, tag all fixed assets, and inventory fixed assets at least once each year to ensure that assets are accounted for and maintained in proper working order.**

**Insurance Requirements**

The FFA and GH Contracts Section 5.1.1.3 require agency insurance policies to expressly indicate that the County be given a written notice by mail at least 30-days before the cancellation of any policy. The Agency's workers' compensation insurance policy does not expressly indicate that the County be given 30-days written notice of cancellation.

**Recommendation**

10. **Masada management ensure the Agency's insurance policies expressly indicate that the County be given 30-day advance written notice of policy cancellation.**

**Reporting Requirement**

The FFA and GH Contracts Section 17.2 requires agencies to prepare and submit Semi-Annual Expenditure Reports to DCFS within 60 days of the end of each semi-annual reporting period. FFA and GH Contracts Section 25.2 also requires agencies to prepare and submit their cost allocation plans to DCFS each year by August 1st. Finally, the FFA and GH Contracts Section 19.8 require agencies to submit their audited financial statement to DCFS within 30-days of issuance.

Masada has not prepared or submitted its Semi-Annual Expenditure Reports for the periods ending December 30, 2009 and June 30, 2010. Although Masada prepared a cost allocation plan and obtained audited financial statements for our review period, they did not submit the allocation plan or the audited statements to DCFS as required. The Agency should ensure required reports and documentation are submitted to DCFS timely.

**Recommendations****Masada management:**

11. Prepare and submit Semi-Annual Expenditure Reports for the periods ending December 30, 2009 and June 30, 2010 to DCFS.
12. Submit its cost allocation plan to DCFS.
13. Submit its audited financial statement for fiscal year ending June 30, 2010 to DCFS.
14. Ensure that required reports and documentation are prepared and submitted to DCFS timely.





PHILIP L. BROWNING  
Director

**County of Los Angeles  
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

425 Shatto Place, Los Angeles, California 90020  
(213) 351-5802

June 21, 2012

George Igi, Executive Director  
Masada Homes  
130 West Victoria Street  
Gardena, CA 90248

Board of Supervisors  
GLORIA MOLINA  
First District  
MARK RIDLEY-THOMAS  
Second District  
ZEV YAROSLAVSKY  
Third District  
DON KNABE  
Fourth District  
MICHAEL D. ANTONOVICH  
Fifth District

Dear Mr. Igi:

**AUDITOR-CONTROLLER'S FISCAL REVIEW OF COUNSELING & RESEARCH  
ASSOCIATES, INCORPORATED (dba MASADA HOMES) - A FOSTER FAMILY AGENCY  
AND GROUP HOME FOSTER CARE CONTRACT PROVIDER**

We have reviewed your fiscal corrective action plan (FCAP) received on June 11, 2012 in response to the Auditor-Controller's final draft fiscal audit. With regard to the \$28,979 in questioned costs, Masada Homes and DCFS agreed that the total of \$28,979 was disallowed and must be repaid to the Department. Additionally, Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

DCFS accepts the agency's request for three payments. Please make your checks payable to DCFS Cashier and mail to:

Latisha Thompson, ASM III  
Department of Children and Family Services  
425 Shatto Place Rm. 304  
Los Angeles, Ca. 90020

If you have any questions, please contact Ali Gomaa-Mersal, Financial Specialist IV, at (213) 351-3209.

Sincerely,

A handwritten signature in cursive script that reads "Latisha Thompson".

Latisha Thompson, ASM III  
Fiscal Monitoring and Special Payments

**Attachments**

- c: Mike McWatters, Chief Accountant-Auditor (via electronic mail only)
- Sandra Gomez, Principal Accountant-Auditor (via electronic mail only)

*"To Enrich Lives Through Effective and Caring Service"*

**COUNSELING & RESEARCH ASSOCIATES, INCORPORATED  
(dba MASADA HOMES) - A FOSTER FAMILY AGENCY AND GROUP HOME  
FOSTER CARE CONTRACT PROVIDER – FISCAL REVIEW**

**Note:** Department of Children and Family Services (DCFS) will only review documentation not previously provided to the Auditor-Controller.

**Summary of Recommendations**

Based on the FCAP dated 6/11/12, submitted by Masada Homes, status of each recommendation is summarized as follows:

- 14 Recommendations ( 1-14 ) were fully addressed.
- Recommendations (    ) were partially addressed.
- 2 Recommendations ( 1 & 4 ) directed to the Department were addressed.

**Recommendation Status**

1. **DCFS management resolve the \$28,979 (\$16,935 + \$12,044) in questioned costs and collect any disallowed amounts.**

**Agency Proposed FCAP:** Counseling & Research Associates agrees to pay the total questioned costs of \$28,979. However, as that large sum will negatively affect the Agency's cash flow, our Board of Directors has respectfully requested a payment plan of three months.

**DCFS Response:** DCFS accepts the agency's request. Please make checks payable to DCFS Cashier and mail to:

Latisha Thompson, ASM III  
Department of Children and Family Services  
425 Shatto Place Rm. 304  
Los Angeles, Ca. 90020

2. **Masada management ensure that foster care monies are used for allowable expenditures.**

**Agency Proposed FCAP:** Masada management is reviewing its accounting procedures and practices to ensure that foster care monies are used for allowable expenditures. Current procedures and practices are being reviewed with the Auditor-Controller findings in mind to ensure that the procedures are sufficient to prevent similar findings in the future. This review will be completed by July 31, 2012.

**DCFS Response:** DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

3. **Masada management maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

**Agency Proposed FCAP:** Although Masada currently maintains written requests with supervisor approval, vendor invoices and either cancelled checks or credit card statements, management has additionally improved the maintaining of receipts. This practice was discussed with staff and implemented in June, 2011.

**DCFS Response:** DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

4. **DCFS management work with Masada to resolve the overpayments, and collect any verified amounts.**

**Agency Proposed FCAP:** Masada has been working with the DCFS Overpayment Unit to repay the outstanding overpayments. To date, the overpayments have been reduced to \$5,000. This balance will be repaid before the end of the fiscal year on 6/30/12.

**DCFS Response:** DCFS accepts the agency's response.

5. **Masada management ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.**

**Agency Proposed FCAP:** Masada management will continue to work with the DCFS Overpayment Unit to resolve any future payment discrepancies promptly.

**DCFS Response:** DCFS accepts the agency's response.

6. **Masada management ensure that all expenditures are posted to the appropriate cost centers and accounts.**

**Agency Proposed FCAP:** Masada accounting systems usually use a cost allocation based on salaries to allocate costs to the proper cost center. This approved allocation system is being used when costs involve more than one contract and the costs cannot be exactly tied to one specific contract. When costs can be associated with one contract only, the cost allocation system will not be used. This adjustment to the allocation procedure was initiated when the finding was shown to our accounting staff in April, 2011.

**DCFS Response:** DCFS accepts the agency's response. Please submit a copy of the cost allocation plan to Fiscal Monitoring Unit by June 30, 2012.

7. **Masada management prepare monthly bank reconciliations within 30 days of the bank statement date, and ensure that the reconciliations are signed and dated by the preparer and reviewer.**

**Agency Proposed FCAP:** Although monthly bank reconciliations have always been prepared, signed and reviewed in an adequate timeframe, management is now also being sure that the reconciliations are dated to ensure the timeliness of the report. This procedure change was implemented when the finding was presented to the controller in April, 2011.

**DCFS Response:** DCFS accepts the agency's response. Please submit a copy of the last three months bank reconciliations to Fiscal Monitoring Unit by June 30, 2012.

8. **Masada management provide DCFS with justification for a higher petty cash fund limit, and obtain written approval from DCFS to maintain a petty cash balance greater than \$500.**

**Agency Proposed FCAP:** Masada works with several contractors including DCFS. Other contracts also have situations which require quick, efficient cash payments. The purpose of petty cash is to prevent the time and effort necessary to go to the bank on a too frequent basis. Masada has found historically that a \$700 petty cash fund requires a bank visit approximately once a month. Any smaller petty cash would require more frequent bank visits. The agency will approach the DCFS to request a \$700 rather than \$500 limit.

**DCFS Response:** DCFS accepts the agency's response. Please submit a written request for petty cash limit increase to Fiscal Monitoring Unit for approval.

9. **Masada management ensure that their fixed assets list includes the source(s) of funding used to purchase the asset, tag all fixed assets, and inventory fixed assets at least once each year to ensure that assets are accounted for and maintained in proper working order.**

**Agency Proposed FCAP:** Masada is currently working to expand fixed asset lists to include sources of funding, a fixed asset tagging system, and annual inventory of all fixed assets. These changes will take place by the end of the fiscal year, June 30, 2012.

**DCFS Response:** DCFS accepts the agency's response. Please submit a copy of the new fixed asset lists to Fiscal Monitoring Unit by July 15, 2012.

10. **Masada management ensure the Agency's insurance policies expressly indicate the County be given 30-day advance written notice of policy cancellation.**

**Agency Proposed FCAP:** Masada management has worked with Chapman and Associates, our insurance broker, to ensure that all insurance policies in the future expressly indicate the County will be given 30-day advance written notice of policy cancellation. This change was completed with the insurance certificates in January, 2012.

**DCFS Response:** DCFS accepts the agency's response. Please submit a copy of the updated insurance policy to Fiscal Monitoring Unit by June 30, 2012.

11. **Masada management prepare and submit Semi-Annual Expenditure reports for the periods ending December 30, 2009 and June 30, 2010 to DCFS.**

**Agency Proposed FCAP:** Masada management prepared and submitted Semi-annual Expenditure reports for the periods ending December 30, 2009 and June 30, 2010 to DCFS in February, 2012.

**DCFS Response:** DCFS accepts the agency's response. Fiscal Monitoring Unit has received the required reports.

12. **Masada management submit its cost allocation plan to DCFS.**

**Agency Proposed FCAP:** Masada management has completed its cost allocation plan for the fiscal year ending 6/30/13 and will submit it to DCFS by June 30, 2012.

**DCFS Response** DCFS accepts the agency's response. Please submit a copy of the cost allocation plan to Fiscal Monitoring Unit by June 30, 2012.

13. **Masada management submit its audited financial statement for fiscal year ending June 30, 2010 to DCFS.**

**Agency Proposed FCAP:** Masada management has submitted it's audited financial statements for fiscal year ending June 30, 2010 as well as the audited financial statements for fiscal year ending June 30, 2011 to DCFS.

**DCFS Response:** DCFS accepts the agency's response. Fiscal Monitoring Unit has received the required audited financial statements.

14. **Masada management ensure that required reports and documentation are prepared and submitted to DCFS timely.**

**Agency Proposed FCAP:** Masada management will make a more concerted effort to submit all required reports and documentation in a more timely manner. Internal calendars have been developed indicating the required dates for all DCFS, as well as other contract, requirements.

**DCFS Response:** DCFS accepts the agency's response.